

DELTA AREA TRANSIT AUTHORITY

FINANCIAL STATEMENTS

Year Ended September 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Delta Area Transit Authority	County Delta
Audit Date 9/30/04	Opinion Date 11/22/04	Date Accountant Report Submitted to State: 1/11/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Accounting Formula for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

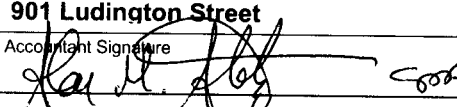
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 901 Ludington Street	City Escanaba	State MI	ZIP 49829
Accountant Signature 		Date 1/11/05	

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Delta Area Transit Authority

We have audited the accompanying statement of financial position of the Delta Area Transit Authority as of September 30, 2004, and the related statement of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delta Area Transit Authority as of September 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2004 on our consideration of the Delta Area Transit Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Delta Area Transit Authority taken as a whole.

To the Board of Directors of the
Delta Area Transit Authority

The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Anderson, Tackman & Company P.C.

Certified Public Accountants

November 22, 2004

DELTA AREA TRANSIT AUTHORITY

STATEMENT OF FINANCIAL POSITION

September 30, 2004

ASSETS

CURRENT ASSETS:

Cash and equivalents	\$ 90,738
Accounts receivable	28,596
State grants receivable	7,376
Federal grants receivable	20,042
Prepaid expenses	10,915
Inventory	<u>11,974</u>

TOTAL CURRENT ASSETS 169,641

PROPERTY AND EQUIPMENT, less accumulated
depreciation of \$1,129,731

1,047,169

\$1,216,810

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 38,508
Accrued payroll, taxes and fringes	21,519
Due to federal government	5,533
Deferred revenue - Unused T2R tickets	<u>4,764</u>

TOTAL CURRENT LIABILITIES 70,324

NONCURRENT LIABILITIES:

Accrued fringe benefits:	
Vacation leave	16,383
Personal and bereavement time	<u>10,048</u>

TOTAL NONCURRENT LIABILITIES 26,431

TOTAL LIABILITIES 96,755

NET ASSETS:

Restricted contributed capital:	
State & Federal	1,036,640
Local	2,554
Retained earnings - unrestricted	<u>80,861</u>

TOTAL NET ASSETS 1,120,055

\$1,216,810

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

**STATEMENTS OF ACTIVITIES,
AND CHANGES IN NET ASSETS**

For the Years Ended September 30, 2004

Operating revenues	\$ 257,993
Operating expenses	<u>(910,047)</u>
OPERATING LOSS	(652,054)
Nonoperating revenues	<u>399,844</u>
NET LOSS	(252,210)
Add depreciation on fixed assets acquired by grants, entitlement, and shared revenues restricted for capital acquisitions	<u>187,255</u>
DECREASE IN NET ASSETS	(64,955)
Net assets, beginning of year	<u>145,816</u>
NET ASSETS, END OF YEAR	<u>\$ 80,861</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from operating activities	\$ 264,444
Cash payments for operating activities	<u>(689,087)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(424,643)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING	
ACTIVITIES:	
Operating grants received	<u>420,432</u>
CASH FLOWS FROM CAPITAL AND RELATED	
FINANCING ACTIVITIES:	
Acquisition of fixed assets	(81,118)
Capital contributed by state, federal &	
local sources	<u>81,118</u>
NET CASH PROVIDED BY CAPITAL AND	
RELATED FINANCING ACTIVITIES	<u>-</u>
NET DECREASE IN	
CASH AND EQUIVALENTS	(4,211)
CASH AND EQUIVALENTS, beginning of year	<u>94,949</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 90,738</u>
RECONCILIATION OF OPERATING LOSS TO NET	
CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (652,054)
Adjustments to reconcile operating	
loss to net cash used by operating	
activities:	
Depreciation	189,463
Changes in assets and liabilities:	
(Increase) decrease in receivables	7,251
(Increase) decrease in prepaid expenses	6,080
(Increase) decrease in inventory	(5,458)
Increase (decrease) in payables	31,672
Increase (decrease) in deferred revenues	(800)
Increase (decrease) in accrued payroll & fringes	1,932
Increase (decrease) in accrued fringe benefits	<u>(2,729)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (424,643)</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Delta Area Transit Authority conform to accounting principles generally accepted in the United States of America as applicable to nonprofit entities. The Delta Area Transit Authority was formed in September of 1989 as a nonprofit corporation to provide public transportation throughout the Delta County area. It is governed by a separately appointed board of directors and is not a component unit of Delta County. Other significant policies are as follows:

(1) Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Transit maintains its accounting records on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred.

(2) Inventories - Inventory consists of replacement parts and is valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Office supplies and fuel are expensed when purchased.

(3) Fixed Assets and Depreciation - Fixed assets are stated at cost when purchased. Costs relating to maintenance and repairs are charged to expenses, whereas those for renewals and betterment, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives. Ranges of useful lives, by asset class, are as follows:

Vehicles	4 - 7 years
Equipment	3 - 10 years
Land Improvements	10 years
Buildings	20 years

(4) Taxable Status - The Transit has received a non-profit exemption ruling from the Internal Revenue Service under Code Section 501(c)(3).

(5) Estimates - The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) Advertising - Advertising costs are expensed as incurred. Total advertising expense for the fiscal year was \$21,444. Additionally, \$13,900 of advertising revenue and expense was recorded during the year as a result of barter transactions with local radio stations.

DELTA AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE B - CASH AND EQUIVALENTS

The composition of cash and equivalents as reported on the Balance Sheet are presented below:

Imprest cash	\$ 100
Deposits:	
Checking account deposits	<u>90,638</u>
TOTAL CASH AND EQUIVALENTS	<u>\$ 90,738</u>

State statutes authorize the Transit to deposit and invest in the following:

- a. Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Banker's acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - i) The purchase of securities on a when-issued or delayed delivery basis.
 - ii) The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii) The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.

DELTA AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE B - CASH AND EQUIVALENTS (continued)

- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the Urban Cooperation of Act 1967, MCL 124.501 to 124.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. Investment pools organized under the Local Government Investment Pool Act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost, which approximates market value, and are in accordance with statutory authority. The deposits are categorized to give an indication of the level of risk assumed by the Transit. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 - Uncollateralized.

The Risk disclosures for the Transit's cash deposits are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 100,000	\$ 90,738
Uninsured	2,306	-
Total	<u>\$ 102,306</u>	<u>\$ 90,738</u>

NOTE C - STATE GRANTS RECEIVABLE

The following is a summary of the state grants receivable as of September 30, 2004:

Act 51 operating assistance - FY 2004	\$ 1,884
Project Zero	<u>5,492</u>
	<u>\$ 7,376</u>

NOTE D - FEDERAL GRANT RECEIVABLE

The federal grant receivable consisted of an amount due of \$20,042 for the operating assistance for fiscal year 2004.

DELTA AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE E - PROPERTY AND EQUIPMENT

Major classes of property and equipment consist of the following:

	Federal & State Funds	Local Funds	Total
Vehicles	\$1,050,566	\$ 19,052	\$1,069,618
Equipment	191,652	28,836	220,488
Land & improvements	35,545	-	35,545
Building	<u>846,929</u>	<u>4,320</u>	<u>851,249</u>
	2,124,692	52,208	2,176,900
Accumulated de- preciation	<u>(1,088,052)</u>	<u>(41,679)</u>	<u>(1,129,731)</u>
TOTAL	<u>\$1,036,640</u>	<u>\$ 10,529</u>	<u>\$1,047,169</u>

Depreciation expense was \$189,463 for the year ended September 30, 2004, of which \$4,825 was on assets purchased with local funds.

NOTE F - ACCUMULATED UNPAID VACATION, PERSONAL AND BEREAVEMENT TIME

Vacation leave is earned in varying amounts depending on the number of years of service provided by the employee. Vacation leave accumulates monthly and is not to exceed a total accumulation of 10 days annually. Accumulated vacation time is payable for all outstanding days at the employees current rate of pay upon retirement or termination. The amount of accrued vacation time at September 30, 2004 is \$16,383.

Personal and bereavement time accumulates at a rate of six (6) hours per month for full time personnel and three (3) hours per month for part-time personnel. The maximum for personal and bereavement leave shall not exceed one hundred and forty (140). Employees will be allowed to convert 25% of their excess personal and bereavement time to their retirement account. The balance at termination of employment is lost. The amount of accrued personal and bereavement leave at September 30, 2004 is \$10,048.

NOTE G - DUE TO FEDERAL GOVERNMENT

The following is a summary of the amount due to the federal government as of September 30, 2004:

Sec. 5311 - FY02	\$ 2,930
- FY03	<u>2,603</u>
	<u>\$ 5,533</u>

DELTA AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE H - CONTRACT FARES

The Delta Area Transit Authority has entered into a contract with the Pathways Mental Health Center for the transportation of it's clients. This contract is a four year contract expiring September 30, 2004. Under the current agreement Pathways pays the Transit \$4.20 per client trip for the fiscal year ended September 30, 2004. The total amount of revenue earned under this contract for the year ended September 30, 2004 was \$122,982.

NOTE I - GRANT CONTINGENCIES

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. As of September 30, 2004, management is unaware of any such unrecorded liability.

NOTE J - BUS SUB-LEASES

During the fiscal year the Transit sub-leased two buses from the State of Michigan. These buses are leased by the State from the lessor and the Transit does not hold title or liability for these buses. As such these financial statements show no asset or depreciation expense for these buses. The Transit is only liable for the operating expenses related to these buses.

SUPPLEMENTARY INFORMATION

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF OPERATING REVENUES

For the Year Ended September 30, 2004

OPERATING REVENUES:

Demand response (farebox)	\$ 113,280
Special contract fares	122,982
Advertising sales	13,980
Maintenance services	<u>7,751</u>

TOTAL OPERATING REVENUES	<u>\$ 257,993</u>
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See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF OPERATING EXPENSES

For the Year Ended September 30, 2004

	<u>Opera- tions</u>	<u>Mainten- ance</u>	<u>General Adminis- tration</u>	<u>Total System</u>
Labor:				
Operators' salaries and wages	\$278,666	\$ 40,171	\$ 55,214	\$374,051
Fringe benefits	55,844	8,050	11,064	74,958
Services:				
Advertising fees	18,705	-	2,739	21,444
Audit cost	4,700	-	-	4,700
Other services	3,700	7,004	3,831	14,535
Materials and supplies consumed:				
Fuel and lubricants	42,760	1,708	-	44,468
Tires and tubes	-	7,032	-	7,032
Other materials and supplies	6,663	38,480	2,183	47,326
Utilities	7,033	-	7,747	14,780
Insurance costs	40,366	-	20,380	60,746
Purchased transportation service	51,089	-	-	51,089
Miscellaneous:				
Travel and meetings	1,073	-	1,009	2,082
Other	783	-	190	973
Operating leases and rentals	2,400	-	-	2,400
Depreciation	<u>189,463</u>	<u>-</u>	<u>-</u>	<u>189,463</u>
TOTAL OPERATING EXPENSES	<u>\$703,245</u>	<u>\$102,445</u>	<u>\$104,357</u>	<u>\$910,047</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF NONOPERATING REVENUES

For the Year Ended September 30, 2004

STATE OF MICHIGAN OPERATING GRANTS:

Formula operating assistance (Act 51)	\$328,084
FY99 adjustment	(13,993)
FY03 adjustment	(1,884)
Project Zero	11,288

FEDERAL OPERATING GRANTS:

U.S. Department of Transportation Grant	
Section 5311	<u>76,349</u>

TOTAL NONOPERATING REVENUES	<u>\$399,844</u>
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See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF CONTRIBUTED EQUITY

For the Year Ended September 30, 2004

Balance, beginning of year	\$1,140,160
Add: grants received	<u>81,118</u>
	1,221,278
Deduct:	
Depreciation of assets purchased from contributed equity	<u>(184,638)</u>
BALANCE, END OF YEAR	<u>\$1,036,640</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF CAPITAL CONTRACTS

For the Year Ended September 30, 2004

GRANTOR: Michigan Department of Transportation

<u>Contract Number</u>	<u>Grant Amount</u>	<u>Previously Earned</u>	<u>State and Federal Currently Earned</u>	<u>Local Currently Earned</u>	<u>Amount Remaining</u>
02-0031Z3	\$ 74,252	\$ 2,755	\$ 58,118	\$ -	\$ 13,379
02-0031Z6	55,000	-	-	-	55,000
02-0031Z7	88,035	-	-	-	88,035
02-0031Z8	23,000	-	23,000	-	-
02-0031Z10	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,000</u>
TOTAL	<u>\$ 275,287</u>	<u>\$ 2,755</u>	<u>\$ 81,118</u>	<u>\$ -</u>	<u>\$ 191,414</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

For the Year Ended September 30, 2004

	<u>Operating</u>	<u>Project Zero</u>	<u>Total</u>
Labor	\$ 366,605	\$ 7,446	\$374,051
Fringe benefits	73,611	1,347	74,958
Services	39,948	731	40,679
Materials and supplies	97,051	1,775	98,826
Utilities	14,514	266	14,780
Insurance costs	59,655	1,091	60,746
Purchased transportation service	51,089	-	51,089
Miscellaneous	3,000	55	3,055
Operating leases and rentals	2,357	43	2,400
Depreciation	<u>189,463</u>	<u>-</u>	<u>189,463</u>
	897,293	12,754	910,047
Less ineligible expenses	<u>(200,038)</u>	<u>(12,754)</u>	<u>(212,792)</u>
TOTAL ELIGIBLE EXPENSES	<u>\$697,255</u>	<u>\$ -</u>	<u>\$697,255</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

For the Year Ended September 30, 2004

	<u>Federal Section 5311</u>	<u>State Operating Assistance</u>
EXPENSES:		
Labor	\$ 374,051	\$ 374,051
Fringe benefits	74,958	74,958
Service	40,679	40,679
Materials and supplies	98,826	98,826
Utilities	14,780	14,780
Insurance costs	60,746	60,746
Purchased transportation service	51,089	51,089
Miscellaneous	3,055	3,055
Operating leases and rentals	2,400	2,400
Depreciation	<u>189,463</u>	<u>189,463</u>
TOTAL EXPENSES	<u>910,047</u>	<u>910,047</u>
LESS INELIGIBLE EXPENSES:		
Maintenance services	7,751	7,751
Advertising costs	275	275
Project Zero	12,754	12,754
Depreciation	187,254	187,254
MPTA Dues	58	58
Audit cost	<u>4,700</u>	<u>-</u>
TOTAL INELIGIBLE EXPENSES	<u>212,792</u>	<u>208,092</u>
NET ELIGIBLE EXPENSES	<u>\$ 697,255</u>	<u>\$ 701,955</u>
SECTION 5311 CONTRACT PERCENTAGE - 10.95%	<u>\$ 76,349</u>	
MAXIMUM SECTION 5311 REIMBURSEMENT	<u>\$ 78,840</u>	
STATE OPERATING ASSISTANCE REIMBURSEMENT 42.236619648%		<u>\$ 296,482</u>
STATE OPERATING ASSISTANCE FY97 FLOOR		<u>\$ 328,084</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF MILEAGE DATA, VEHICLE HOURS, AND PASSENGERS

For the Year Ended September 30, 2004

	Public Transpor- tation Mileage	Vehicle Hours	<u>Passengers</u>		
			<u>Regular</u>	<u>Elderly</u>	<u>Disabled</u>
DEMAND RESPONSE:					
First Quarter	72,555	4,680	15,866	2,164	8,328
Second Quarter	69,779	3,692	12,516	2,225	6,570
Third Quarter	74,852	4,984	16,869	2,305	8,869
Fourth Quarter	<u>77,735</u>	<u>4,597</u>	<u>9,349</u>	<u>2,122</u>	<u>7,647</u>
TOTAL OPERATIONS	<u>294,921</u>	<u>17,953</u>	<u>54,600</u>	<u>8,816</u>	<u>31,414</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

See accompanying notes to financial statements.

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
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Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors of the Delta
Area Transit Authority
Escanaba, Michigan 49829

We have audited the financial statements of the Delta Area Transit Authority, as of and for the year ended September 30, 2004, and have issued our report thereon dated November 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Transit, in a separate letter dated November 22, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Transit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement could adversely affect the Transit's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Report to Management dated November 22, 2004.

Board of Directors of the Delta
Area Transit Authority

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described in the Report to Management to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Transit, in a separate letter dated November 22, 2004.

This report is intended for the information of the Transit Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Company P.C.

Certified Public Accountants

November 22, 2004

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF AWARDS - FEDERAL AND STATE

For the Year Ended September 30, 2004

<u>Federal Grantor/Program Title</u>	<u>State Contract Number</u>	<u>CFDA Number</u>	<u>Award Amount</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Passed through MDOT			
Operating Assistance -			
Section 5311 - FY04	02-0031Z9	20.509	\$ 78,840
Capital Assistance	02-0031Z3	20.509	74,252
 MICHIGAN DEPARTMENT OF TRANSPORTATION:			
Operating Assistance -			
Act 51 - FY04	-	-	328,084
Project Zero	02-0031Z8	-	46,513
 TOTAL OPERATING ASSISTANCE			

<u>Unexpended Balance 09/30/03</u>	<u>Federal Revenue</u>	<u>State Revenue</u>	<u>Other Revenue</u>	<u>Expendi- tures</u>	<u>Unexpended Balance 09/30/04</u>
\$ -	\$ 76,349	\$ -	\$ -	\$ 76,349	\$ -
-	46,494	11,624	-	58,118	-
-	-	328,084	-	328,084	-
-	-	34,288	-	34,288	-
<u>\$ -</u>	<u>\$ 122,843</u>	<u>\$ 373,996</u>	<u>\$ -</u>	<u>\$ 496,839</u>	<u>\$ -</u>

DELTA AREA TRANSIT AUTHORITY

DETAIL OF INELIGIBLE EXPENSES

For the Year Ended September 30, 2004

<u>Ineligible Expense</u>	<u>Ineligible Costs</u>	
	<u>Section</u> <u>5311</u>	<u>Act</u> <u>51</u>
1. <u>Maintenance Services</u> - During the fiscal year the Transit provided maintenance services for an outside agency. Eligible expenses must be reduced for the costs incurred for revenue earned on outside maintenance services provided.	\$ 7,751	\$ 7,751
2. <u>Advertising Costs</u> - Any cost associated with advertising revenue earned on bus-board advertising is an ineligible expense.	275	275
3. <u>Project Zero</u> - This project is a separately funded program. Consequently these expenses are ineligible for state and federal operating assistance.	12,754	12,754
4. <u>Depreciation</u> - Depreciation accrued by public operators is ineligible according to UMTA C9050, 1A, Page V-4.	187,254	187,254
5. <u>MPTA Dues</u> - A portion of the Michigan Public Transit Association dues are ineligible. The percentage of ineligible expense for the MPTA dues for fiscal year 2004 is 7.4%.	58	58
6. <u>Audit Cost</u> - The cost of the annual audit is an ineligible expense per OMB Circular A-133 if the Transit expended less than \$500,000 in federal funds. The audit cost remains eligible for Act 51 reimbursement.	4,700	-



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

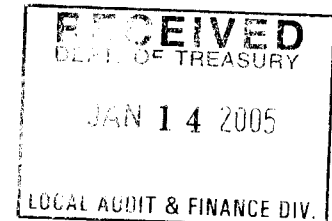
OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

REPORT TO MANAGEMENT

Board of Directors
Delta Area Transit Authority
Escanaba, Michigan 49829



We have audited the financial statements of the Delta Area Transit Authority for the year ended September 30, 2004, and have issued our reports thereon dated November 22, 2004. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Delta Area Transit Authority. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Delta Area Transit Authority are described in Note A of the financial statements.

Significant Accounting Policies (continued)

No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Delta Area Transit Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do have a significant effect on the financial reporting process.

The audit adjustments that, in our judgement, indicate matters that could have a significant effect on the Transit's financial reporting process were to reconcile most of the balance sheet accounts to the actual detail. These adjustments were necessary due to a lack of internal balance sheet reconciliation being done throughout the year. All adjustments made have been posted by the Transit. Our recommendations regarding this matter are addressed in the attached memorandum.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Delta Area Transit Authority or a determin-

Board of Directors
Delta Area Transit Authority

ation of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

In planning and performing our audit of the financial statements of the Delta Area Transit Authority, for the year ended September 30, 2004, we considered the Transit's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 22, 2004, on the financial statements of the Delta Area Transit Authority.

We have already discussed many of these comments and suggestions with various Transit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the board and management of the Transit and is not intended to be and should not be used by anyone other than these specified parties.

Andersen, Tackman & Company P.C.

Certified Public Accountants

November 22, 2004

DELTA AREA TRANSIT AUTHORITY

COMMENTS AND RECOMMENDATIONS

September 30, 2004

ACCOUNTS RECEIVABLE

1. Presently the accounts receivable function is being handled in a separate company set up in Quickbooks. This information, then, has to be re-entered into the company in Quickbooks that contains the general ledger function. We recommend that the receivables be done within the same company in Quickbooks so as to avoid duplicate efforts.
2. Presently on the deposit tickets all of the checks received are listed by their individual check number. For easier receivable tracking we recommend that the names of the payor also be listed. This would allow immediate trackability to the individual receivable listings.

INVENTORY

As of the date of the audit a detailed listing of inventory was unavailable. While we recognize that inventory has an immaterial balance we feel that it is still important for the Transit to monitor and control it's inventory. We recommend that a detail listing be developed and maintained for the Transit on a consistent basis.

ACCOUNTS PAYABLE

During our audit we noted a duplicate payment to Marquette General Hospital. This occurred partially because payables are handled outside of the Quickbooks accounting package. In order to make the accounting for the Transit more complete we recommend consideration be given to using Quickbooks for the check disbursing function as well as the general ledger function.

FAREBOX RECEIPTS

1. During our audit we noted that the daily driver logs are not always complete with respect to fares that should have been collected. Also we noted that the driver logs are not reconciled to the actual farebox collections. We recommend that at least a periodic reconciliation be performed with the actual fares collected to the driver logs. This will serve to enhance internal controls over farebox collections.
2. We also noted that the fares are counted weekly but deposited on a monthly basis. We recommend that these fares be deposited as often as they are counted.

DELTA AREA TRANSIT AUTHORITY

COMMENTS AND RECOMMENDATIONS

September 30, 2004

RECEIPTS

We noted during our audit that one farebox receipt was not recorded in the receipt book. We recommend that all revenue items received by the Transit be recorded in the receipt book to allow for a complete document trail.

DISBURSEMENT APPROVAL

During our review of the minutes we noted that there were a few checks (#11192-11196) that were not listed as approved by the board. We recommend that all checks be approved by the board, preferably prior to issuance.

CHECK SIGNING

At present the Transit uses duplicate signature checks. One signature is a board member's, one is the executive director's. At this time the executive director not only signs the checks but also holds the board member's signature stamp, which effectively eliminates the benefits of a dual signature check system. We recommend that someone other than the executive director, preferably a board member, maintain physical control over the board member's signature stamp.

LABOR AGREEMENT

During our audit of the paid time off balance accrued by the employees we noticed that there were some differences between the accrued hours and the limits on those hours as agreed to in the labor agreement. We recommend that the accrued hour balances be adjusted to match the labor agreement.

QUARTERLY OPERATING ASSISTANCE REPORTS

We noted during our audit that the first, second and third quarter reports were inaccurate in the mileage that was reported. We recommend that procedures be modified to allow for the quarterly reports to be as accurate as possible.

ACCOUNTING SERVICES

Because of limited personnel and because the general ledger reconciliations were not performed during the year we recommend that the board consider retaining an outside commercial accountant to perform general ledger functions as well as bank reconciliation functions. We feel consideration of the matter is warranted due to the limited number of staff available to perform the accounting functions while maintaining an appropriate level of segregation of duties. With the executive director performing many of the accounting functions segregation of duties with respect to physical asset control and asset accounting is limited.

DELTA AREA TRANSIT AUTHORITY

COMMENTS AND RECOMMENDATIONS

September 30, 2004

REPORTABLE CONDITIONS:

GENERAL LEDGER RECONCILIATION

We noted during our audit that no reconciliation was being done between the detail records and the general ledger. This reconciliation should be done on a monthly basis for all balance sheet accounts. Without this reconciliation you have eliminated the usefulness of the double-entry accounting system that is in place.